

2011 STATE OF THE STATE ADDRESS

The Honorable Jack Dalrymple Governor of the State of North Dakota January 4, 2011

Lt. Governor Drew Wrigley, distinguished legislators, Justices of the Supreme Court, elected officials, chairman Tex Hall, First Lady Betsy, Kathleen Wrigley, our military personnel and fellow citizens of North Dakota – welcome and thank you for being here today.

It is an honor and a privilege for me to address this joint session of the 62nd Legislative Assembly. I have attended the last 13 state of the state addresses, listening to four by Governor Sinner, four by Governor Schafer, and five by Governor Hoeven. And most of those addresses I have heard from your position as a legislator, and not from the chair where Drew is sitting today. I look forward to our continued work together in a cooperative and civil atmosphere, to achieve our common goals. This has been our tradition in North Dakota, and it produces the best results for our people.

We have much to be proud of and to be thankful for here in North Dakota. While other states remain firmly in the grip of our nation's weakened economy, we in North Dakota are in a position of strength and can use our surplus funds to meet the needs of our state.

While other states are forced to tackle budget shortfalls, job losses, and cuts to critical services, we are providing added tax relief, unprecedented improvements in infrastructure, the continued building of our reserves, and additional funding for education, health, human services, safety and many other quality-of-life improvements.

I don't mean to suggest that we are somehow immune to the nation's economic woes. It reaches us all, and as a state, we will have 174 million fewer dollars in federal funding in human services alone. But in North Dakota - unlike most other states - we are setting our own course and reaping the rewards of our hard work, our careful fiscal management, our pro-business climate, and our diversified economy.

You can see it in the progress of our industries, our main streets, in our schools, and in our overall economic growth. Our progress is getting national attention, it's attracting people from other states and it's allowing people to

stay close to home. Our population has grown by more than 30,000 people in the last decade, coming close to our all-time record. Our merchandise exports have nearly doubled to \$2 billion in the last five years alone. We've added nearly 40,000 new jobs in the last decade, while the nation has lost jobs, and we have the lowest unemployment rate in the nation: 3.3 percent compared to the national average of 9.3 percent. I could go on and on with economic indicators, but I think you get the picture.

It's clear, I am fortunate today to be able to say with complete confidence ...that the state of our state is <u>strong</u> and <u>growing stronger!</u>

I think you would all agree that things are going well for our state, but that really is not my main message today. As your new governor, I want to talk with you about where we are going next.

I will refer today to some of our accomplishments, but more importantly, I want to stress that we have not reached our destination. We have more to do.

We should not be satisfied when national surveys rank our state at the top in areas of education, quality of life, or commerce. We shouldn't be satisfied because others do not set the standards for North Dakota. Only our citizens and their elected representatives in this chamber can set the standards for our state, and I expect they will be set very high. This is not a time to slow down. We have the opportunity now to

build North Dakota into the very best state that it can possibly be.

Over the last 10 years, our strategies for growth have been designed to achieve three primary objectives: fund our priorities; build strong reserves for the future; and provide tax relief whenever possible. The question was: "How can we achieve all three of these outcomes at the same time?" First, I will review our successful strategy of the last 10 years, and then I will explain the new focus of our strategies for the coming decade.

Job creation has been the over-arching strategy since 2001, and the Census report confirms that this strategy is working. We started by identifying and targeting five industries that hold the most promise for creating new jobs. We formed a new Department of Commerce that has built a record of success in creating new jobs in all five targeted industries.

Five targeted industries for job creation

The energy industry has long provided a major opportunity for job growth. To foster that growth, we have promoted the development of all forms of energy, traditional and renewable. For instance, in the oil and gas industry we facilitated a dramatic expansion in transportation infrastructure. By expanding our pipelines and rail transportation, we've doubled capacity from 230,000 barrels of oil per day in 2007 to nearly 460,000 barrels in 2010. This

obviously is a critical element in expanding the job opportunities in the energy industry.

Jim Arthaud saw opportunity in our growing oil and gas industry. He and other family members established Missouri Basin Well Service with one truck in 1979. Today, the oilfield logistics company is the largest private employer in Stark County with 500 employees, 130 contract workers, 200 company trucks and 150 leased trucks. Their company transports oil, sand, water and other oilfield products throughout western North Dakota. When we talk about developing the energy industry for North Dakota, we're talking about entrepreneurs like Jim Arthaud and his family. Jim, please stand so we can thank you for all those jobs.

In agriculture – another targeted industry – we have concentrated on the development of ventures that add value to our farm products. Through the Department of Commerce and the North Dakota Trade Office, we are providing the assistance these enterprises need to create jobs and provide local markets for farmers at the same time.

Wahpeton-based Giant Snacks is a prime example of a value-added ag enterprise. In 2009, with money made available through development programs, Giant Snacks expanded its production foot print by 30,000 square feet, and its workforce has since grown from 5 to about 28 full-time employees. Their Jumbo sunflower seeds are the top seller throughout the region, and their national sales are taking off too. Jay Schuler,

president of Giant Snacks, tells me they will need to double their square footage in another two years. I've tried these Jumbo sunflower seeds myself, and believe me, once you get started you can't put the bag down. By the way, they're the official sunflower seed of the Minnesota Twins.... and they're personally endorsed by Ron Gardenhire.

Our efforts to create jobs in tourism – our third targeted industry – are also paying off. I'm happy to report that this year, 47 of our 53 counties are reporting increases in tourist visits. Kyle Blanchfield, owner of Woodland Resort on Devils Lake, is a prime example of the entrepreneurial spirit that is driving our success. Twice now Kyle has had to move his family's entire resort to higher ground. But he never gave up. He had a vision, and he has built Woodland Resort from a small bait shop into a large and diverse resort that employs 15 full-time staff and about 30 seasonal workers. Kyle has partnered with a nationally televised outdoor show, and now thousands of people stay at Woodland Resort for the fishing, hunting and great outdoors experience. I can attest, their guides are so good that even I can catch a limit of walleyes in a few hours.

Another of our targeted industries is technology, where we've seen a large number of tech-park companies develop into active job creators. One example is Intelligent InSites, a Fargo company founded by Dr. Ray Gruby, his son, Trevor, and Mark Rheault. Their company has developed software for the health care industry that utilizes tracking systems based on

radio frequency identification and ultra-sound technology. It keeps track of equipment, supplies, and even personnel. The company began as a start-up in the incubator building at NDSU, and today Intelligent InSites employs about 50 people in downtown Fargo.

Baker Boy Industries of Dickinson exemplifies what we are accomplishing in our final targeted industry, Advanced Manufacturing, where state-of-the-art equipment provides not only greater efficiency but also higher-paying jobs that require advanced skills learned in North Dakota. Supported by the state's PACE program, Baker Boy is expanding by 50,000 square feet, with plans to double its production of bakery products. The company generates about \$36 million in annual revenues and employs 250 people. They have expanded even while other manufacturers nationwide have cut back because they have remained a highly competitive company with state-of-the-art equipment.

These and other job-creating businesses are the reason why North Dakota is leading the nation according to many economic measurements. The U.S. Chamber of Commerce determined that North Dakota is #1 in the nation in economic growth over the last ten years. The Beacon Hill Institute, a university think tank in Massachusetts, has for many years found its own state to be the national leader in competitiveness. In 2003, North Dakota ranked 28th in the nation. But this year, Massachusetts surrendered its #1 ranking in competitiveness to none other than North Dakota.

Let's all give a round of applause to the productive people of our state.

Job creation leads to a stronger economy, which in turn leads to more state revenues, which in turn leads to more funding, larger reserves, and lower taxes. Looking ahead, we have identified a new method of approaching our job creation that will further enhance our results and grow our economy for years to come. It is time for us to put this approach into practice. Today it is my privilege to present to you the new Strategic Plan for North Dakota's Economic Development, a new road map that will take us forward in the upcoming decade. The report is available today.

Five strategies for job creation, 2010-2020

Our report, prepared over the last two years by the Department of Commerce, can be summarized in five essential strategies for continued economic growth. In addition to approaching job creation through five targeted industries, we will now take a holistic approach, using five specific strategies that create jobs across all industries and sectors. The first strategy is sustaining a positive business climate. That means a focus on low taxes, a friendly regulatory climate, and the most responsive state government anywhere. But today I want to especially emphasize one major element of a positive business climate, which is a solid infrastructure.

The remarkable and rapid growth of oil and gas development in western North Dakota has brought jobs and

population growth, but it has also brought extreme wear and tear on roads and pushed our water supply systems to the limit. In my budget message I outlined an aggressive, forward-looking plan that will address the needs of our 17 oil and gas producing counties by focusing resources directly on the most heavily impacted roads and facilities.

We have grown accustomed to a high standard in highway infrastructure, what the Reason Foundation has found to be the finest roads and bridges in the nation. But if we want to maintain this standard, we must make critical investments in our roadways now.

While western North Dakota has pressing infrastructure needs, no less important are the infrastructure needs of other parts of our state, notably the Devils Lake region and the Red River Valley. We cannot expect the people in these regions to continue living under the constant threat of flooding and property damage.

We need a permanent solution to these challenges, to not only end the personal hardships they cause, but to also provide the essential transportation and services that will allow employers to maximize their productivity all year round.

The second strategy is investment in research and development, in both the private sector and the university system. That means research in Unmanned Aerial Systems, combining the resources of UND with companies like

Northrop Grumman. Or it means Life Science companies like Aldevron making new vaccines, energy research at the EERC, or advanced agricultural research at the new NDSU greenhouse. Think of the value of a new wheat variety that brings in \$40 more on every acre, with no additional expense. Research is an investment that pays back. That is why we have proposed a new model for public-private partnership called the "Research Center of Excellence."

Our third strategy is to foster a culture of entrepreneurship where all of our four-year universities operate business incubators that support start-up enterprises of all kinds. Ask Joe Heilman of Fargo-based Pedigree Technologies, how a promising new technology company gets its start. Pedigree is a software company that connects information systems and sensors for innumerable applications. These small start-ups need to be nurtured because they are the job creators of the future. This concept will be enhanced in the new "Entrepreneurship Center of Excellence."

The fourth strategy is to build, educate, and retain our workforce. We have jobs now, but we still have work to do finding the employees and matching them with the jobs that companies have to offer. Using WorkKeys, an assessment tool developed by ACT, we can evaluate new and prospective employees to determine the best placements of those individuals within a business. We will teach employers how to use this tool effectively, saving time and cost by not placing employees in mismatched jobs. Our two-year colleges can use

this test for their own students, showing them the jobs where they would excel, and adjusting their training accordingly. This approach can be formalized into the new Workforce Center of Excellence.

Our final strategy calls for building on our success in the global marketplace by linking North Dakota businesses with foreign buyers. As the past chairman of our state Trade Office, I can tell you that the opportunities for our state's exporters are incredible. With the help of the Trade Office, North Dakota ranks first in the nation in export growth over a five-year period. The model for export trade that we have developed in North Dakota is very effective and can be enhanced by adding specialized services such as logistics consulting.

These are the five strategies that make up our new, integrated approach to job creation for the coming decade: a positive business climate, including solid infrastructure; research and development; entrepreneurship; workforce development; and export trade. These strategies, when added to the strong foundation already built to create jobs in five targeted industries, will provide the necessary ingredients to continue our economic growth well into the future.

Education

No plan for economic development can succeed without a simultaneous commitment to excellence in education. With the help of the legislative assembly, our state's accomplishments are many. Senate bill 2200, passed in 2007, laid to rest the issue of equity in school funding. In 2009, House bill 1400 addressed the issue of adequacy and brought us to the long-sought goal of 70 percent funding from state resources. This measure joined with another breakthrough piece of legislation to reduce a school districts' reliance on local property taxes through a reduction of 75 mills in the general fund levy. This reduced the bill to local taxpayers by an average of 18 percent.

North Dakota has received recognition in K-12 education as well. We received the prestigious Frank Newman Award from the Education Commission on the States for "Outstanding Innovation in Education Policy." But perhaps the most important measure in the long term is something else. A recent Time magazine poll indicates that parent involvement is the single greatest factor in improving student achievement. The National Education Goals Panel ranked North Dakota No. 1 in parental involvement, a key factor in predicting a student's chance of success.

Are we satisfied? Of course not. We must finish the job of funding adequacy and move to the great challenge of improving the quality of instruction in our schools. We all know there are many great teachers in our schools. But what would it be like if all of our teachers could learn to become great teachers? We would see many wonderful things happen, like what we have seen from a group of six West Fargo students who in April won first place in a national science and

engineering competition organized by NASA. The middle school students spent more than 800 hours researching the competition's premise: to reduce future lunar settlers' dependence on water from Earth. The students beat out 300 others by designing a system that can turn wastewater into drinking water. As the country's top design team, the students received a trip to NASA's Kennedy Space Center in Florida where they viewed the launch of the Space Shuttle Atlantis. Let us congratulate Principal Tabitha Joyce and the talented students from West Fargo.

Higher education also is a key to our state's future. We must encourage young people to seek advanced education because we know they become more productive, higher-earning individuals for the rest of their lives. In recent years we have taken significant steps forward in making post-secondary education more affordable for all of our young people. In 2009 the legislative assembly appropriated \$19 million for needs-based scholarships and instituted merit scholarships totaling \$10 million for students who achieve a certain grade-point average and ACT score. Our university system is providing students with the knowledge and skills they need to succeed. At North Dakota State College of Science, for instance, 98 percent of last year's graduates are employed or are continuing their education.

But we know we have work to do. After decades of funding our eleven campuses on the basis of past appropriations and past expenditures, we have lost track of the rationale for each campus's funding level. We must begin a new approach to funding higher education where we ask the board of higher education to develop a funding methodology that is based on the outcomes that education leaders and citizens would like to see from their college campuses. We can begin slowly, and follow the guidance of a Commission on Higher Education funding.

Our campuses are a great treasure to our state, and a key to our future. Their spirit of entrepreneurship has made it possible for our universities and colleges to achieve far more than we would have thought possible just 15 years ago. They will continue to adapt to our future needs if we communicate clearly our expectations.

Quality of Life

Our efforts in economic development and education are producing a quality of life in North Dakota that is improving every year. But we must work hard to protect and preserve that quality of life against all challenges.

At the core of our quality of life is our freedom—freedom to improve our lives and to enjoy our good fortune. We are utterly indebted to the men and women of our National Guard and all of our Armed Forces for the great sacrifices they make every day on our behalf.

Among all states, North Dakota has the highest percapita National Guard membership. We have sent our

outstanding men and women into harm's way in two World Wars, the Korean War, the Vietnam War, the Gulf War, and the War on Terror. Recently I attended the funeral of Air Force Major Tom Beyer, whose remains were returned from Vietnam after being lost for 42 years. On July 30, 1968 Major Beyer flew an advance spotting mission over the enemy jungle and was shot down. His family in Fargo was informed that he was missing in action. On December 18, 2010 Major Tom Beyer was laid to rest at last in Holy Cross North Cemetery in Fargo. We will never forget the ultimate sacrifices made by Major Beyer and other North Dakotans, and the sacrifices made by their brave, unselfish families. Let us honor Major Beyer and his wife Karen, who is here with us today. Karen, please stand and be recognized.

North Dakota has a long and proud history of serving our nation's military. Would all of our veterans and service members who are present here today please stand so that you can be recognized.

Another way that we preserve our quality of life is by taking care of people who need our help. It has been said that a society is best measured by the way it treats its most vulnerable. We have made that commitment in North Dakota for many years. Recently the legislature has rebased our formula and passed large funding increases for nursing homes and home-based care. We have made great progress in the treatment of the mentally ill and developmentally disabled. We

have increased substantially our support of children's health care.

Human services programs have become increasingly complex and difficult to administer. We can be proud that our Department of Human Services does an outstanding job managing numerous services throughout the state. Just recently, our department beat out all other states in our region when it was awarded the Quality Control Star Award and the Excellence in Financial Management Award. Specifically, the department was recognized for its fiscal integrity and quality control in managing a nutrition program.

Once again we have made great progress, but there is still more to do. In the executive budget for 2011-13 we have proposed nearly \$8 million across several agencies to address the mental health challenges facing some of our citizens. Much of this funding is needed for inpatient psychiatric care in all of our larger communities, as well as resources to treat chemical dependency.

Other funding will support suicide prevention efforts through our Department of Health and the Department of Indian Affairs. We provide funding to address mental health problems on our campuses and in our high schools. We also support our military service members and our veterans suffering from post traumatic stress disorder.

Perhaps most important of all, we are recommending an increase of 3 percent in each year of the upcoming biennium for the providers of care to our seniors and our most vulnerable. These caregivers work long hours and they deserve our gratitude. While North Dakota is doing well, we cannot forget those unselfish citizens who take care of those who are most in need.

Our senior citizens deserve every bit of respect that we can give them. They do not access our system of care until they have no other options. Otherwise, they are among the most productive people in our state, like Bob Keim. At age 84, Bob volunteers at the Waterford retirement community here in Bismarck, helping residents, calling bingo and maintaining the facility's flower garden. He mentors students from the Youth Correctional Center, taking them on camping trips to the Badlands. Bob also helps in the kitchen at Martin Luther School slicing vegetables, cutting sandwiches and washing dishes. When asked why he works so hard Bob said, "It's because the people of North Dakota have been so good to me." Let's recognize Bob and all of our seniors who give so much to our communities.

Our quality of life is also heavily impacted by the condition of our infrastructure. In the past we have done a good job of maintaining our roads, protecting people from disasters, supplying essential services, and providing good facilities in which to study and work.

Quality of life also depends upon good supplies of drinking water and water for industrial use. Investments are needed from Fargo to Valley City to Williston and Watford City. All of these investments, whether they be roads, bridges, flood prevention structures, or water treatment plants, will pay dividends back to our citizens for decades to come. They are one-time investments that will enhance the quality of our lives. We have proposed to pay for them in cash and create no future liabilities. This is without question the best use of our reserve funds.

Going forward, we should look at all forms of energy as a great opportunity to continue these investments and advance our state. The new integrated energy systems of the future could be the most important opportunity for our state. Think about the investments of Great River Energy at Spiritwood, North Dakota. They will burn beneficiated lignite coal to create electricity for the region, while selling waste steam to the Cargill malt plant and thereby helping them reduce their operating costs. They also plan to sell waste steam to a proposed cellulosic ethanol plant under development by Dakota Spirit AgEnergy. They in turn will sell ethanol to blenders to power our automobiles.

Energy is such a large part of our economic future that we have recommended a new Energy Division in the Department of Commerce to support all energy development, not just individual projects. This would include not only the development of all types of energy but also the pursuit of the many spin-off opportunities for small business to supply pumps, motors, water, synthetic sand and the endless other needs of a large and dynamic energy sector. The payback to the citizens of North Dakota would be tremendous.

No discussion about quality of life would be complete without addressing the area of law enforcement and public safety. I have recommended that we fund three additional highway patrol officers, that we build and equip a new addition to the Highway Patrol Academy, and that we expand the communications capabilities of state radio, the key to our state's emergency response system. An investment in six communications towers will also improve the public's cell phone service in poor coverage areas. It's our responsibility to make sure the public can count on their communities to be safe, and that the dedicated men and women who are sworn to protect us have the tools they need to do the job.

In closing, let me describe my vision for a growing and prospering North Dakota:

- Our formula for job creation can become a model for the nation.
- Our young and talented can enjoy a growing number of opportunities that keep them in North Dakota.
- The graduates from our schools, colleges and universities will be the best prepared for the high-paying jobs of the future.
- We can expect growing cities with vibrant downtown neighborhoods.

- We can expect our agriculture to continue to be the most advanced and innovative in the world.
- Our citizens can continue to be among the healthiest in the world.
- We can continue to build our reserves, provide tax relief, fund infrastructure and other priorities.
- We can show the way for members of Congress to begin a new era of fiscal responsibility in Washington D.C.

I'm asking you now, legislators and all citizens of North Dakota, to commit to these enhanced strategies for growth in the coming decade. We know how far we have come. All of us, working together, will determine how far we will go.

Thank you and God bless the great state of North Dakota.